1-1-1986

Washington report, vol. 15 no.37, November 17, 1986

American Institute of Certified Public Accountants.

AICPA Washington Report

November 17, 1986, Volume XV, Issue 37

TREASURY, DEPARTMENT OF

Penalties for taxpayers who substantially understated their income tax liability for 1982 and later years will be increased from 10 percent to 25 percent beginning with penalties assessed after 10/21/86, according to an information release (IR-86-149) issued by the IRS 11/6/86. The change was authorized by the Congress in the Omnibus Budget Reconciliation bill, which was signed by President Reagan 10/21/86. The IRS said that the penalty generally applies to tax returns due after 12/31/82, if tax liability is understated by the greater of 10 percent or $5,000 ($10,000 for most corporations). For non-tax shelter items, however, the penalty does not apply if the taxpayer either had substantial authority for the treatment on the tax return or adequately disclosed the relevant facts on the return. If the understatement relates to tax shelter items, the penalty does not apply if taxpayers can show that they reasonably believed that the tax treatment on the return was more likely than not the proper treatment.

The IRS noted that the Tax Reform Act of 1986 also dealt with the substantial understatement penalty, effective for tax returns due after 12/31/86. The IRS said that "although Congress intended the increased penalty provisions of the Omnibus Budget Reconciliation Act to apply to tax returns due after 12/31/86" it was "studying the effect, if any, of the Tax Reform Act provisions on these returns."

In a related matter, enactment of the Omnibus Reconciliation Act has doubled the penalty for failure to deposit certain taxes required under the federal tax depository sytem (IR-86-153). According to the IRS, the penalty is increased from 5 percent to 10 percent of the amount not deposited. The increase is effective for penalties assessed after 10/21/86, regardless of when the failure occurred.

SPECIAL: NEW LAW AUTHORIZES GSA TO CONTRACT OUT TRANSPORTATION AUDITS

Legislation authorizing the General Services Administration (GSA) to hire private auditors to audit Federal government payments for transportation costs was signed into law on 11/7/86 by President Reagan. The legislation, H.R. 5420, was drafted in response to a recommendation by the President's Private Sector Survey on Cost Control, more commonly known as the Grace Commission, designed to reduce the GSA's backlog of audits of transportation and travel charges. The new law authorizes GSA to hire private auditors to perform postpayment audits of transportation bills; the private auditors will be paid a percentage of collected overcharges identified by the auditor. The law limits "expenses of transportation audit contracts and contract administration" to 40 percent of the monies recovered annually. In addition, "payment to any contractor shall not exceed 50 percent of the overpayments identified by any contract audit." The balance of overpayments collected by the GSA is to be paid to the Treasury Department. During consideration of the bill on the Senate floor, Sen. Roth (R-DE), chairman of the Senate Governmental Affairs Committee, noted limited authority previously had been granted to the GSA to contract out for transportation audits. As a result, he said, "GSA has increased its net collections for transportation overcharges from $5.9 million in fiscal year 1985 to an estimated $15.4 million for fiscal year 1986. With increased use of contractors for fiscal year 1987, net collections are estimated to increase to $23.1 million this year, climbing to $28 million in fiscal year 1988, and to $32.2 million in fiscal year 1989 as the audit backlog continues to drop. The Congressional Budget Office estimates net savings in outlays during the next three fiscal years (1987, 1988, 1989) of $15 million; $17 million; and $17 million respectively."

SPECIAL: SECOND DISTRICT OF VIRGINIA ELECTS CPA TO U.S. HOUSE OF REPRESENTATIVES

Owen B. Pickett, CPA, was elected to the U.S. House of Representatives from Virginia's second congressional district on 11/4/86. Congressman-elect Pickett, a Democrat, replaces retiring Rep. G. William Whitehurst (R) who served the Virginia Beach area since 1969. A member of the Virginia House of Delegates since 1972, Mr. Pickett served on the Committees on Appropriations; Privileges and Elections; Health, Welfare and Institutions; and Chesapeake and Its Tributaries. Additionally, Mr. Pickett has served as Chairman of the Democratic State Central Committee, Chairman of the Second Congressional District Democratic Committee, and Chairman of the Democratic City Committee of Virginia Beach. A senior partner in the law firm of Pickett, Lyle, Siegel, Drescher and Croshaw, Mr. Pickett is a member of the Virginia Bar. The newly-elected Congressman received his B.S. from the Virginia Polytechnic and State University and his LLB from the University of Richmond Law School. Mr. Pickett has been a member of the AICPA since 1956.

SPECIAL: DON SKADDEN TO ASSUME NEW AICPA POSITION AS VICE PRESIDENT FOR TAXATION

Donald H. Skadden, CPA, has been appointed AICPA Vice President for Taxation. In the newly created position, Mr. Skadden will be responsibile for the Institute's federal taxation activities. Currently, Mr. Skadden is the associate dean of the Graduate School of Business Administration and Arthur Young Professor of Accounting at the University of Michigan. Mr. Skadden has served as a member of the AICPA Council, a member of the Federal Taxation Executive Committee, the CPE Committee and numerous tax subcommittees and task forces. Additionally, he has participated on the Financial Accounting Standards Advisory Council and is past president of the American Accounting Association and the American Taxation Association. Mr. Skadden will be based in the Institute's Washington, D.C. office beginning in February, 1987.

SPECIAL: GAO REPORTS ON EDGAR

Before the SEC proceeds with an operational EDGAR system several issues must be addressed, according to a GAO report prepared at the request of Rep. John Dingell (D-MI), Chairman of the House Energy and Commerce Subcommittee on Oversight and Investigations. The report, entitled "SEC Needs to Resolve Key Issues Before Proceeding With Its EDGAR System," lists three main concerns to be resolved by the SEC: 1) clearer identification of the extent to which filers may oppose electronic filing procedures and formats which the SEC plans to mandate and clarification of exemptions from filing; 2) clarification of whether existing law and public policy will allow the Commission to finance costs of developing and operating the electronic "receipt" portion of the EDGAR system through user fees rather than appropriated funds; and 3) the need to better determine total costs and quantitative benefits and to more adequately describe the qualitative benefits of EDGAR. The operational system, as planned, would consist of two separate computer systems - one system for internal Commission processing, and one external system to electronically receive and disseminate filings submitted annually by over 13,000 filers. The Commission proposes to fund the estimated $35 million cost of the internal system using appropriated funds. The external system is to be financed by a contractor who recovers the cost, and a reasonable rate of return, by charging users for data filed with the Commission. Responses to the request for proposals were originally due 9/10/86 but have now been extended to 12/31/86 (see the 11/10/86 <u>Wash. Rpt.</u>), with the contract award within 120 days. A copy of the report, GAO/IMTEC-87-2, may be obtained by writing the U.S. General Accounting Office, P.O. Box 6015, Gaithersburg, MD 20877 or by calling the GAO at 202/275-6241.

SPECIAL: HERB LERNER TO CHAIR AICPA TAX DIVISION EXECUTIVE COMMITTEE

Herbert J. Lerner, CPA, was appointed Chairman of the AICPA's Taxation Executive Committee by AICPA Chairman J. Michael Cook. In this position, Mr. Lerner will preside over the Executive Committee, which consults with the Treasury Department, the IRS, and Congressional Committees about tax matters. Mr. Lerner, a partner and the Vice Chairman of Tax Services at Ernst & Whinney, previously served as Chairman of AICPA Tax Division Subcommittees on Tax Policy, Tax Accounting, and Employee Benefit Plans. He is a member of the District of Columbia Institute of CPAs and was Vice Chairman of its Tax Committee. Additionally, Mr. Lerner is a member of the District of Columbia Bar and served on the IRS Commissioner's Advisory Group in 1982-1983. A former adjunct professor in the graduate law program at Georgetown University, Mr. Lerner is a frequent author and lecturer on tax subjects. He is co-author of the three-volume work Federal Income Taxation of Corporations Filing Consolidated Returns. Mr. Lerner holds a B.S. degree from Rutgers University and an LLB from Georgetown University. Mr. Lerner assumes the position previously held by Allen Ellentuck who served as chairman from 1983 to 1986.

For further information contact Shirley Hodgson or Joseph Petito at 202/872-8190.

AICPA *Washington Report*

American Institute of Certified Public Accountants
1620 Eye Street, N.W., Washington, D.C. 20006

AICPA100
A CENTURY OF PROGRESS
IN ACCOUNTING
1887-1987

FIRST CLASS MAIL